

NEON PRODUCTS OF CANADA LIMITED • 1967 ANNUAL REPORT



Guy J. B. Lewall

VICE-PRESIDENT FINANCE

NEON PRODUCTS OF CANADA LIMITED

HEAD OFFICE

1685 CLARK DRIVE VANCOUVER 12, B.C.

ALPINE 5-3551

RES: AMHERST 1-0847



COVER

The embossed emblem on this Report cover is symbolic of "LLOBET LIVING PANEL", a new and highly sophisticated product which has been conceived, engineered and tooled for production by your company. Further explanatory remarks are included in the Directors' Report.



NEON PRODUCTS OF CANADA LIMITED



DIRECTORS

C. W. Brazier, Q.C.
F. H. Brown, C.B.E.
A. B. Christopher
A. M. Eyre
G. E. Housser, Q.C.
R. H. B. Ker

Senator J. L. Nichol
D. P. Rogers
H. R. Smith
W. E. Thomson
S. F. Whittle

OFFICERS

A. B. Christopher, *Chairman of the Board*
H. R. Smith, *President*
S. F. Whittle, *Executive Vice-President*
G. J. Lewall, *Vice-President Finance and Secretary-Treasurer*
R. M. Oliphant, *Vice-President Sales*

TRANSFER AGENT and REGISTRAR

The Canada Trust Company
Vancouver, B.C. and Toronto, Ontario

AUDITORS

Winspear, Higgins, Stevenson & Doane
1505 Robson Street, Vancouver 5, B.C.

HEAD OFFICE

1885 Clark Drive, Vancouver 12, B.C.

The Annual Meeting of Shareholders will be held at 10:30 a.m. on Thursday, August 24th, 1967 at the Head Office of the company, 1885 Clark Drive, Vancouver 12, B.C.



DIRECTORS' REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the 39th Annual Report and to review for you the affairs and financial reports of your company for the year which ended April 30, 1967.

As mentioned to you last year, tight money and high interest rates were having an effect on the overall economy and, without a doubt, these factors created a condition which resulted in lower sales of your company's products. The year under review was marked by an ever-accelerating spiral of inflation, and even with continued emphasis on increasing efficiency, it has not been possible to absorb the sharp rise in the cost of labour, material, services, and taxes. Buyer resistance and competition within the Industry has precluded us from passing on at least a part of these increased costs by way of increased selling prices.

SALES

Notwithstanding the various factors which affected the entire economy, sales must still be reported as reasonably satisfactory in most districts of the company. Roto-Vision continues to contribute quite significantly to total sales, and you will be interested to know those sales included an eight-city programme designed and produced for EXPO 67.

RENTAL AND SERVICE CONTRACTS

Rental and service contracts for future billings increased slightly over the preceding year to \$16,418,000, and as pointed out over past years, the profit arising from these contracts — projected beyond the cost of selling and production — remains an important factor in maintaining a stable level of our future income.

EARNINGS

Consolidated revenue of \$8,505,574 was up from \$8,337,036 reported in the preceding year, and the fact your company was able to maintain this position bears out the stability arising out of rental and service contracts which are written for future billings and reported to you over the past years.

The consolidated profit for the year totalled \$663,648 compared with \$675,118 for the year 1966, as summarized hereunder:

| | 1967 | | 1966 | |
|--|------------------|----------------|------------------|----------------|
| | Amount | Per Share | Amount | Per Share |
| Profit from operations..... | \$641,551 | \$0.580 | \$660,118 | \$0.597 |
| Profit on sale of investments and fixed assets..... | 22,097 | 0.020 | 15,000 | 0.013 |
| Profit for the year..... | <u>\$663,648</u> | <u>\$0.600</u> | <u>\$675,118</u> | <u>\$0.610</u> |

Increased costs of operation and maintenance remarked upon earlier in this report have resulted in the slightly lower level of earnings per share, in spite of improved consolidated revenue.

DIVIDENDS

Your Directors declared four quarterly dividends of .10¢ for the year under review, amounting to .40¢ per common share.

LONG TERM DEBT FINANCING

During the latter part of 1966, your Management and Directors felt it wise to improve the current and long term debt position in view of the possibility of the tight money situation continuing for an indefinite time. Accordingly, arrangements were made with the Prudential Insurance Company of America to renew and extend the existing loan. The proceeds of this loan were used, as follows:

| | |
|---|--------------------|
| Retirement of existing Prudential loan..... | \$1,600,000 |
| Retirement of current bank loan..... | 1,500,000 |
| Addition to working capital..... | 900,000 |
| | <u>\$4,000,000</u> |

The surplus funds generated were invested in a short term portfolio and are available for current operations, as required.

WORKING CAPITAL

Working capital amounted to \$4,837,725 at April 30, 1967, an increase of \$2,117,579 from a year ago. The increase in working capital places your company in a very favorable position.

LABOUR

As reported to you last year, all labour agreements but one had been signed for five year terms and had varying periods to run to expiry. Early



this year, the Winnipeg agreement was extended for a further period of eighteen months. Presently the Office and Technical Employees' Union has been certified by the Labour Relations Board of British Columbia and has commenced negotiations relative to employees in the Vancouver Head Office.

SEABOARD ADVERTISING CO. LTD.

Revenue in this wholly-owned subsidiary declined from the previous year by some \$80,000, and this contributed to some degree to the reduction in consolidated earnings. Your Management and Directors are paying very close attention to the Seaboard Division and several measures will be undertaken during the current year with a view to improving Seaboard sales and earnings.

FEDERAL AND PROVINCIAL INCOME TAXES

The increase in income taxes payable currently is attributable to a reduction in the amount of capital cost allowance claimed in excess of amounts charged to income, as compared with the past several years. This reduction is as a result of the temporary reduction in capital cost allowance introduced by the Federal Government on March 30, 1966. The deferred capital cost allowance regulations were subsequently terminated on April 1, 1967.

NEW PRODUCTS

The company's continued search for new products is highlighted this year by the introduction of "LLOBET LIVING PANEL". This new product was conceived, engineered and tooled for production by your company and is now being introduced to the Vancouver and Victoria Metropolitan areas through the Seaboard Advertising operations.

The "LLOBET LIVING PANEL" is unique in that it displays seven poster advertisements in sequence, and it is a most definite advancement in the Outdoor Advertising Industry.

The patent rights, exclusive manufacturing and marketing rights for Canada and the nineteen Western United States, are held by your company. Non-exclusive rights to the remaining United States and other areas are also held by your company.

These new 'poster machines' will be offered on a sale and royalty basis to all recognized Outdoor Advertising companies across Canada and to corresponding Outdoor Advertising companies in the nineteen Western United States. We believe this development will be a most successful product and will be well received by the Outdoor Advertising Industry in Canada and the United States.

In addition, your company has also just acquired the exclusive rights to manufacture and market a new electrical display product throughout Canada. This new product — "SIGN-TIFIC" — was developed by a leading neon sign company in the Eastern United States and is fully covered by patents on the North American Continent. Planning for production and sales of this new product is now underway.

THE YEAR AHEAD

Your company is looking to the coming year with confidence, and both sales and profits are up for the first two months over the same period of the previous year. The introduction of new products described in this Report should prove of great assistance in maintaining the growth pattern established over the past several years.

The company-wide programme to search for new products, improved materials, and new methods will continue at its present level to ensure that your company will continue to keep abreast of modern design and techniques.

The Directors and Management wish to express appreciation for the many contributions made by employees in all divisions of the company during the past year.

Submitted on behalf of the Board.

Harvey R. Smith,
President.

July 30 1967.



NEON PRODUCTS OF CANADA LIMITED AND SUBSIDIARY COMPANIES

ASSETS

| | 1967 | 1966 |
|---|---------------------|---------------------|
| CURRENT | | |
| Cash and short term deposits..... | \$ 1,006,851 | \$ 83,822 |
| Marketable securities, at cost (market value \$5,694)..... | 11,389 | 11,389 |
| Receivables, less allowance for losses..... | 692,859 | 717,476 |
| Materials on hand and work in process at cost..... | 1,092,976 | 989,183 |
| Prepaid expenses..... | 173,292 | 73,540 |
| Land and buildings available for sale, at net book value which is below estimated market value..... | 45,886 | 85,136 |
| Cost of displays on rental — estimated amount to be amortized in the next fiscal year..... | 2,950,000 | 2,850,000 |
| | <u>5,973,253</u> | <u>4,810,546</u> |
| DISPLAYS ON RENTAL, AT COST LESS AMOUNTS AMORTIZED | <u>7,814,856</u> | <u>7,515,651</u> |
| Less amount included in current assets..... | <u>2,950,000</u> | <u>2,850,000</u> |
| | <u>4,864,856</u> | <u>4,665,651</u> |
| RENTAL AND SERVICE CONTRACTS RECEIVABLE — FUTURE BILLINGS | <u>16,418,148</u> | <u>16,130,754</u> |
| Less unearned revenue applicable to future periods..... | <u>16,418,148</u> | <u>16,130,754</u> |
| | <u>—</u> | <u>—</u> |
| SPECIAL REFUNDABLE TAX | <u>102,439</u> | <u>—</u> |
| INVESTMENTS AND RECEIVABLES OTHER THAN CURRENT | <u>80,147</u> | <u>49,221</u> |
| LAND, BUILDINGS AND EQUIPMENT, AT COST | <u>3,761,033</u> | <u>3,699,468</u> |
| Less accumulated depreciation..... | <u>1,857,326</u> | <u>1,794,490</u> |
| | <u>1,903,707</u> | <u>1,904,978</u> |
| UNAMORTIZED FINANCE FEE | <u>31,395</u> | <u>26,333</u> |
| EXCESS OF COST OF SUBSIDIARY SHARES OVER BOOK VALUE OF NET ASSETS ACQUIRED | <u>280,186</u> | <u>280,186</u> |
| | <u>\$13,235,983</u> | <u>\$11,736,915</u> |

ON BEHALF OF THE BOARD:

F. W. Brown

Director

C. W. Hughes

Director

CONSOLIDATED BALANCE SHEET April 30, 1967 *(with comparative figures)*



LIABILITIES

| | 1967 | 1966 |
|--|---------------------|---------------------|
| CURRENT | | |
| Due to bank — cheques issued in excess of deposits | \$ 29,902 | \$ 209,959 |
| — demand loan | — | 1,050,000 |
| Payables and accruals | 527,992 | 485,680 |
| Long term debt payable within one year | 310,366 | 260,366 |
| Income taxes payable | 267,268 | 84,695 |
| | <u>1,135,528</u> | <u>2,090,400</u> |
| DEFERRED CREDITS | | |
| Rental and service charges paid in advance | 801,307 | 787,136 |
| Accumulated tax reductions applicable to income of future periods | 2,030,329 | 1,901,953 |
| | <u>2,831,636</u> | <u>2,689,089</u> |
| LONG-TERM DEBT LESS AMOUNTS PAYABLE WITHIN ONE YEAR | | |
| 7½% note with instalments of \$250,000 payable annually to 1981 | 3,750,000 | — |
| 6½% note with instalments of \$200,000 payable annually to 1974 (redeemed in current year) | — | 1,600,000 |
| 6% notes payable in varied annual instalments to 1967 | — | 60,366 |
| | <u>3,750,000</u> | <u>1,660,366</u> |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 1) | | |
| Authorized | | |
| 1,800,000 shares of no par value | | |
| Issued and outstanding | | |
| 1,104,723 shares | 1,592,105 | 1,592,105 |
| RETAINED EARNINGS | 3,926,714 | 3,704,955 |
| | <u>5,518,819</u> | <u>5,297,060</u> |
| | <u>\$13,235,983</u> | <u>\$11,736,915</u> |

NOTE 1: There is an option outstanding in favour of an officer of the company for an aggregate number of 10,000 shares at \$8.55 per share, which is exercisable on or before June 30, 1970.



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended April 30, 1967 *(with comparative figures)*

| | 1967 | 1966 |
|---|---------------------|---------------------|
| GROSS REVENUE FROM SALES AND RENTS..... | \$ 8,505,574 | \$ 8,337,036 |
| EXPENSES | | |
| Cost of sales and services..... | 4,052,721 | 4,009,489 |
| Amortization of displays and related costs..... | 2,752,760 | 2,590,581 |
| Depreciation..... | 169,629 | 168,182 |
| Remuneration of directors and senior officers..... | 107,800 | 106,749 |
| | <u>7,082,910</u> | <u>6,875,001</u> |
| Net operating income..... | 1,422,664 | 1,462,035 |
| OTHER INCOME | | |
| Interest earned..... | 29,421 | 7,555 |
| Gain on sale of investments and fixed assets..... | 22,097 | 15,000 |
| | <u>1,474,182</u> | <u>1,484,590</u> |
| INTEREST ON LONG-TERM DEBT AND AMORTIZATION OF FINANCE FEE..... | 191,982 | 137,672 |
| Net income before income taxes..... | <u>1,282,200</u> | <u>1,346,918</u> |
| INCOME TAXES | | |
| Payable..... | 490,176 | 325,382 |
| Reduction due to claiming capital cost allowance in excess of amounts charged to income, carried to deferred credits on the balance sheet..... | <u>128,376</u> | <u>346,418</u> |
| | 618,552 | 671,800 |
| Net income..... | <u>663,648</u> | <u>675,118</u> |
| RETAINED EARNINGS, BEGINNING OF YEAR..... | 3,704,955 | 3,489,314 |
| | <u>4,368,603</u> | <u>4,164,432</u> |
| DIVIDENDS PAID..... | 441,889 | 441,889 |
| ADDITIONAL INCOME TAXES ASSESSED FOR PRIOR YEARS..... | — | 17,588 |
| | <u>441,889</u> | <u>459,477</u> |
| RETAINED EARNINGS, END OF YEAR..... | <u>\$ 3,926,714</u> | <u>\$ 3,704,955</u> |
| Net income per share..... | <u>\$0.60</u> | <u>\$0.61</u> |

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year ended April 30, 1967 *(with comparative figures)*

| | 1967 | 1966 |
|---|---------------------|---------------------|
| SOURCE | | |
| Net income for year..... | \$ 663,648 | \$ 675,118 |
| Depreciation and amortization..... | 2,923,014 | 2,758,735 |
| Deferred income taxes not payable currently..... | 128,376 | 346,418 |
| Proceeds from sale of 7½% promissory note less current instalment of \$250,000..... | 3,750,000 | — |
| Proceeds from sale of fixed assets (Note 1)..... | 7,084 | 10,142 |
| Employees' share subscriptions..... | 1,273 | 3,239 |
| Collections on investments and other receivables..... | 8,801 | 8,212 |
| Increase in rentals and service charges paid in advance..... | 14,171 | 35,404 |
| | <u>7,496,367</u> | <u>3,837,268</u> |
| DISPOSITION | | |
| Expenditure on displays on rental less increase in current portion..... | 2,951,965 | 3,045,115 |
| Purchase of buildings and equipment..... | 172,067 | 122,354 |
| Payment on 6½% note..... | 1,600,000 | 200,000 |
| Payment on 6% notes..... | 60,366 | 60,366 |
| Payment of dividends..... | 441,889 | 441,889 |
| Payment of special refundable tax..... | 102,439 | — |
| Acquisition of mortgage receivable on sale of fixed assets available for sale..... | 41,000 | — |
| Payment of finance fees re 7½% promissory note..... | 9,062 | — |
| Additional income taxes assessed for prior years..... | — | 17,588 |
| | <u>5,378,788</u> | <u>3,887,312</u> |
| Increase (decrease) in working capital..... | 2,117,579 | (50,044) |
| | <u>7,496,367</u> | <u>3,837,268</u> |
| WORKING CAPITAL | <u>\$ 4,837,725</u> | <u>\$ 2,720,146</u> |

NOTE 1: Proceeds from sale of fixed assets available for sale, shown in the current section of the balance sheet, are not reflected in this statement.



NEON PRODUCTS OF CANADA LIMITED

AUDITORS' REPORT

To the Shareholders,

We have examined the consolidated balance sheet of Neon Products of Canada Limited and its subsidiary companies as at April 30, 1967 and the consolidated statement of income and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and retained earnings and source and disposition of funds present fairly the financial position of the companies as at April 30, 1967 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WINSPEAR, HIGGINS, STEVENSON AND DOANE,

July 14, 1967.

Chartered Accountants.

TEN YEAR STATEMENT OF EARNINGS

(000 omitted)

| For the Fiscal Years ended April..... | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|----------|----------|----------|----------|---------|---------|---------|---------|---------|---------|
| Gross Revenue from Sales and Rents..... | \$ 8,505 | \$ 8,337 | \$ 7,787 | \$ 7,768 | \$6,940 | \$6,407 | \$6,574 | \$6,538 | \$5,729 | \$4,944 |
| Expenses..... | 7,245 | 7,005 | 6,600 | 6,532 | 5,887 | 5,708 | 5,953 | 5,720 | 5,046 | 4,340 |
| Operating Earnings before Taxes..... | 1,260 | 1,332 | 1,187 | 1,236 | 1,053 | 699 | 621 | 818 | 683 | 604 |
| Income Taxes..... | 618 | 672 | 588 | 611 | 527 | 352 | 296 | 398 | 323 | 278 |
| Profit on Operations..... | 642 | 660 | 599 | 625 | 526 | 347 | 325 | 420 | 360 | 326 |
| Profit on sale of Investments and Fixed Assets..... | 22 | 15 | 48 | 94 | 21 | 34 | 18 | 95 | — | 49* |
| Profit for the year..... | 664 | 675 | 647 | 719 | 547 | 381 | 343 | 515 | 360 | 375 |
| Per Share..... | .60 | .61 | .59 | .65 | .49½ | .34 | .31 | .47 | .33 | .35 |
| Dividends..... | 442 | 442 | 442 | 368 | 295 | 221 | 221 | 221 | 219 | 215 |
| Per Share..... | .40 | .40 | .40 | .33½ | .27 | .20 | .20 | .20 | .20 | .20 |

NOTES: 1. Net earnings per share (April 1964 and prior) adjusted to reflect 3 for 1 stock split in September, 1964.

2. *Fiscal year 1958 includes a dividend received from unconsolidated partly owned subsidiary. This amount appears as Profit on disposal of Fixed Assets for that year.

TEN YEAR FINANCIAL SUMMARY

(000 omitted)

| As at Fiscal Year ended April..... | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Assets..... | \$ 5,973 | \$ 4,811 | \$ 4,633 | \$ 4,483 | \$4,094 | \$4,123 | \$3,329 | \$3,800 | \$3,484 | \$3,336 |
| Current Liabilities..... | 1,135 | 2,090 | 1,862 | 1,256 | 1,028 | 855 | 629 | 884 | 653 | 521 |
| Working Capital..... | 4,838 | 2,721 | 2,771 | 3,227 | 3,066 | 3,268 | 2,700 | 2,916 | 2,831 | 2,815 |
| Working Capital Ratio..... | 5.26 | 2.31 | 2.49 | 3.57 | 3.98 | 4.82 | 5.29 | 4.31 | 5.32 | 6.40 |
| Other Assets..... | 5,359 | 5,021 | 4,582 | 3,948 | 3,825 | 3,060 | 3,108 | 3,447 | 2,876 | 2,421 |
| Net Fixed Assets (after depreciation)..... | 1,904 | 1,905 | 1,957 | 1,983 | 2,026 | 2,000 | 2,575 | 2,268 | 1,719 | 1,704 |
| Long Term Debt (Excludes Current Portion)..... | 3,750 | 1,660 | 1,920 | 2,180 | 2,440 | 2,400 | 2,600 | 2,800 | 2,000 | 2,000 |
| Provision for future Income Taxes..... | 2,030 | 1,902 | 1,555 | 1,336 | 1,157 | 969 | 916 | 681 | 622 | 535 |
| Book Value of Shareholders' Equity..... | 5,519 | 5,297 | 5,081 | 4,876 | 4,525 | 4,272 | 4,157 | 4,478 | 4,240 | 3,966 |
| Accounted for by: Capital Stock..... | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,459 |
| Retained Earnings..... | 3,927 | 3,705 | 3,489 | 3,284 | 2,933 | 2,680 | 2,565 | 2,886 | 2,648 | 2,507 |
| Total Assets..... | <u>13,236</u> | <u>11,737</u> | <u>11,172</u> | <u>10,414</u> | <u>9,945</u> | <u>9,183</u> | <u>9,012</u> | <u>9,517</u> | <u>8,079</u> | <u>7,461</u> |
| <i>Other Data</i> | | | | | | | | | | |
| Number of shares outstanding (000 omitted)..... | 1,104 | 1,104 | 1,104 | 1,104 | 1,104 | 1,104 | 1,104 | 1,104 | 1,104 | 1,074 |
| Number of Shareholders..... | 2,642 | 2,541 | 2,209 | 1,463 | 1,349 | 1,366 | 1,314 | 1,269 | 1,214 | 1,122 |
| Capital Expenditures (000 omitted)..... | 3,470 | 3,655 | 2,818 | 2,536 | 2,620 | 2,118 | 2,794 | 2,534 | 2,558 | 2,443 |

NOTES: 1. Number of shares outstanding (April 1964 and prior) has been adjusted to reflect 3 for 1 stock split in September, 1964.

2. Capital expenditures are principally amounts expended on displays on rental.

